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**New Jersey**

# Senators combat house-flipping scam

**Proposed rules would subject homes to greater scrutiny before FHA insures the mortgage**

Thursday, September 25, 2003

**BY TED SHERMAN**  
**Star-Ledger Staff**

In an effort to close the door on property-flipping scams, Congress is moving to tighten controls on government-backed mortgages.

Proposed rules require that homes purchased with Federal Housing Administration-insured mortgages receive either an FHA- certified inspection or a 10-year warranty on the property.

Sen. Jon Corzine (D-N.J.), a member of the Banking, Housing and Urban Affairs Committee, said the proposed rules are the latest push to address the scams, which continue to be a serious problem in New Jersey as well as elsewhere.

"The language is a critical first step in protecting the FHA program and first-time home buyers against fraud. It should prevent foreclosures that are a result of house-flipping schemes that thrive due to the lack of certified appraisals or home inspections," said Corzine.

The proposals are incorporated into the current appropriations bill for the Veterans Affairs and the Housing and Urban Development departments, which is expected to go before the full Senate next week.

Flipping scams typically involve property buyers, lenders and appraisers working together as a team. They buy dilapidated houses in poor neighborhoods, artificially inflate their value with cosmetic renovations, then sell them at double or triple the price -- sometimes "flipping" them overnight.

Frequently the buyer cannot qualify for a conventional mortgage and finances the home through an FHA-insured loan, without a down payment. The buyer,

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stretched to the limit by the monthly mortgage payment, defaults after discovering the house needs major repairs.

Earlier this year, the FHA imposed its own new rules, saying it would no longer insure mortgages on properties sold more than once within 90 days. At the same time, lenders are now required to obtain an additional and independent appraisal if a repeat sale occurs between 91 and 180 days.

HUD officials said it is too early to measure any impact of the rules they put in place in June. They said the department would have no response on the changes being considered by Congress until the enactment of the appropriations bill.

Consumer advocates, however, said there were still too many loopholes to put an end to flipping scams. Phyllis Salowe-Kaye, executive director of New Jersey Citizen Action -- which has been working to help dozens of victims refinance houses that turned out to be worth far less than they paid -- noted that New Jersey does not certify home inspectors.

"Obviously everything they can do to put in more stopgaps in predatory lending is good, but they could be made stronger," she said.

Flipping has plagued inner-city communities throughout the country in recent years. New Jersey continues a consumer fraud probe in the case of a group of companies that operated in Essex and Union counties more than two years ago under a string of names, including the Eon Institute and Neighborhood Properties Group.

The now-defunct companies and more than a dozen individuals connected with the firms, its lenders and appraisers were charged last year with predatory lending tactics, unconscionable business practices and consumer fraud. They also were accused of violating New Jersey's discrimination laws by deliberately targeting minority home buyers.

While the charges are pending, one appraiser has lost his license.

Barry Fauntleroy, a Mendham entrepreneur and former radio personality, was described by the state as the mastermind of the scheme. He has yet to answer the civil complaint drawn up in May 2002. "We have not been able to serve him," said a spokeswoman for the state Division of Consumer Affairs.

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